From: "Michelle Ashburn" <mashburn@banklandmark.com> on 04/06/2004 06:10:07 PM
Subject: Regulation BB - Community Reinvestment Act

April 6, 2004

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 200551
Re: Docket No. R-1181

RE: Proposed Revisions to the Community Reinvestment Act Regulations

Dear Office of the Secretary:

I am writing to support the federal bank regulatory agencies' (Agencies) proposal to enlarge the number of banks and saving associations that will be examined under the small institution Community Reinvestment Act (CRA) examination. The Agencies propose to increase the asset threshold from $250 million to $500 million and to eliminate any consideration of whether the small institution is owned by a holding company. This proposal is clearly a major step towards an appropriate implementation of CRA and should reduce regulatory burden on those institutions newly made eligible for the small institution examination, and I support both of them. However, I would strongly support going a step further and increasing the asset threshold to $1 billion which would greatly reduce the regulatory burden and still fulfill the intent of CRA.

When the CRA regulations were rewritten in 1995, the banking industry recommended that community banks of at least $500 million be eligible for a less burdensome small institution examination. The most significant improvement in the new regulation was the addition of the small institution CRA examination, which actually did what the Act required; had examiners, during their examination of the bank, look at the bank's loans and assess whether the bank was helping to meet the credit needs of the bank's entire community. It imposed no investment requirement on small banks, since the Act is about credit not investment. It added no data reporting requirements on small banks, fulfilling the promise of the Act's sponsor that there would be no additional paperwork or recordkeeping burden on banks if the Act passed. And it created a simple, understandable assessment test of the bank's record of providing credit in its community: the test considers the institutions loan-to-deposit ratio, the percentage of loans in its assessment areas; its record of lending to borrowers of different income levels and businesses and farms of different sizes; the geographic distribution of its loans; and its record of taking action, if warranted, in response to written complaints about its performance in ibution of its loans; and its record of taking action, if warranted, in response to written complaints about its pehelping to meet credit needs in its assessment areas.

Our bank recently crossed the threshold from small bank to large bank. We reported and submitted our CRA data for the first time for the year of 2003. This, along with the many other record keeping and documentation requirements, has increased our regulatory burden

considerably. I have been the bank's CRA Officer for over 10 years, a function I've never taken lightly. However, the task was never as daunting as it is today. Our bank has incurred considerable expense and dedicated resources to ensuring that our lending, investment, and service are appropriately documented and communicated. I have spent my entire time thus far this year dedicated to CRA. This has tremendously impacted my other functions at the bank. Being the CRA Officer in my earlier years, although important, was ancillary to my primary function. Now it is superceding my other duties. I could see where the bank needs a half-time to three-quarter time CRA Officer. That is a large additional expense due only to the fact that our asset size has exceeded the CRA small bank threshold and yet we really remain a small community bank dedicated to serving our communities. Additionally, we have incurred expense in data collection and reporting software.

This increased burden joins the other regulatory burdens that we've incurred lately including massive new reporting requirements under HMDA, the USA Patriot Act, and the privacy provisions of the Gramm-Leach–Biley Act. These new or revised regulations tie up personnel resources for research, training, procedure and form formulation, and auditing. The regulations demand monetary resources as well. Our annual privacy disclosure requires over $5,000 alone. In all actuality, these new regulations require a full time position in addition to our standard compliance and training positions.

I believe that it is as true today as it was in 1995 and in 1977 when Congress enacted CRA, that a community bank meets the credit needs of its community if it makes a certain amount of loans relative to deposits taken. A community bank such as us is typically non-complex; it takes deposits and makes loans. Its business activities are usually focused on small, defined geographic areas where the bank is known in the community. The small institution examination accurately captures the information necessary for examiners to assess whether a community bank is helping meet the credit needs of its community, and nothing more is required to satisfy the Act.

While the small institution test was the most significant improvement of the revised CRA, it was wrong to limit its application to only banks below $250 million in assets, depriving many community banks from any regulatory relief. Currently, a bank with more than $250 million in assets faces significantly more requirements that substantially increase regulatory burdens without consistently producing additional benefits as contemplated by CRA. In today's banking market, even a $500 million bank often has only a handful of branches. This is why I support and strongly encourage raising the limit to at least $1 billion. This is appropriate for two reasons. First, keeping the focus of small institutions on lending, which the small examination does, would be entirely consistent with the purpose of CRA which is to ensure that the Agencies evaluate how banks help to meet the credit needs of the communities they serve.

Second, raising the limit to $1 billion will have only a small effect on the amount of total industry assets covered under the more comprehensive large bank test. According to the Agencies' own findings, raising the limit from $250 to $500 million would reduce total industry assets covered by the large bank test by less than one percent. According to 12/31/03 Call Report data, raising the limit to $1 billion will reduce the amount of assets subject to the much more burdensome large institution test by only 4%. Yet, the additional relief provided would

again, be substantial, reducing the compliance burden on more than 500 additional banks and savings associations (compared to a $500 million limit). Accordingly, I urge the Agencies to raise the limit to at least $1 billion, providing significant regulatory relief while, to quote the Agencies in the proposal, not diminishing "in any way the obligation of all insured depository institutions subject to CRA to help meet the credit needs of their communities. Instead, the changes are meant only to address the regulatory burden associated with evaluating institutions under CRA."

In conclusion, I strongly support increasing the asset-size of banks eligible for the small bank streamlined CRA examination process as a vitally important step in revising and improving the CRA regulations and in reducing regulatory burden. I also support eliminating the separate holding company qualification for the small institution examination, since it places small community banks that are part of a larger holding company at a disadvantage to their peers and has no legal basis in the Act. While community banks, of course, still will be examined under CRA for the record of helping to meet the credit needs of their communities, this change will eliminate some of the most problematic and burdensome elements of the current CRA regulation from community banks that are drowning in regulatory red-tape.

Respectfully,

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